

The Mercantile Bank of Canada

AFFILIATED WITH FIRST NATIONAL CITY BANK

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16th annual report

Directors

P. H. AUSTIN, *President*
Montreal

A. BACHAND, *Director of the Development Fund*
University of Montreal, Montreal

H. A. BENHAM, *Executive Director*
The Winnipeg Foundation, Winnipeg

J. L. BLACK, *Chairman*
The New Brunswick Telephone Co. Ltd., Sackville

W. J. BORRIE, *Chairman*
Pemberton Securities Ltd., Vancouver

P. CÔTÉ, *President*
Laval Dairy, Quebec

S. C. EYRE, *Senior Vice-President*
First National City Bank, New York

HON. L. P. GÉLINAS, *Consultant*
Geoffrion, Robert & Gélinas Inc., Montreal

J. T. JOHNSON, Q.C., *Partner*
Borden, Elliot, Kelley & Palmer, Toronto

H. T. MITCHELL, *President*
Mitchell Press Ltd., Vancouver

G. S. MOORE, *Chairman*
First National City Bank, New York

A. T. SEEDHOUSE, *President*
The Manufacturers Life Insurance Co., Toronto

H. A. STEINBERG, *Vice-President Administration and Treasurer*
Steinberg's Limited, Montreal

E. H. TANNER, *Corporate Director*
Calgary

MAJ. GEN. A. E. WALFORD, *Corporate Director*
Montreal

W. B. WRISTON, *President*
First National City Bank, New York

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AFFILIATED WITH FIRST NATIONAL CITY BANK

Officers

W. B. WRISTON, *Chairman*
P. H. AUSTIN, *President*
A. T. SEEDHOUSE, *Vice-President*
MAJ. GEN. A. E. WALFORD, *Vice-President*
G. G. PHELPS, *General Manager*
D. C. LANGFORD, *Deputy General Manager*
G. S. LYNCH, *Secretary*

Head Office:

1015 Beaver Hall Hill,
Montreal

G. MARKHAM, *Chief Accountant*
D. G. FERENZ, *Supervisor*
A. G. FORMAN, *Supervisor*
H. F. HENRY, *Supervisor*
E. E. FULCHER, *Manager*
G. LACHANCE, *Manager*
C. H. TEICHER, *Manager*

Senior Regional Officers

BRITISH COLUMBIA, W. S. Hulton,
Vancouver Branch: 1177 West Hastings Street
D. H. Pender, *Manager*

ALBERTA, W. A. Prisco,
Calgary Branch: 700 - 8th Avenue S. W.
R. B. Ray, *Manager*, Oil & Gas Dept.

MANITOBA, J. E. Cleghorn,
Winnipeg Branch: 244 Portage Avenue

ONTARIO, T. C. Achilles, Jr.,
Toronto Branch: 120 Adelaide Street West

QUEBEC, J. E. Radford,
Montreal Branch: 491 Victoria Square
Satellite Branch: 5549 Monkland Avenue
J. Daignault, Quebec City Branch
580 Grande Allée East

MARITIMES, G. A. Novinger,
Halifax Branch: 1 Sackville Place
Satellite Branch: Scotia Square

President's Statement

The Canadian economy will probably achieve a 9% annual growth rate in 1969, for the second consecutive year. However, 1969 will be more remembered for its inflationary environment and the resulting fiscal and monetary restraints.

On the fiscal side, the 3% personal and corporation surtaxes were extended. Increases in government expenditure were cut back and the Prices and Incomes Commission was set up to encourage voluntary price and wage restraints.

Monetary restraints were already evident in the last quarter of 1968. In mid-1969 there was a further tightening with an increase in the minimum secondary reserve ratios of Chartered Banks from 7% to 8%, obliging banks to take a more restrictive approach to new loan requests.

Expanding markets feeding on inflationary attitudes, coupled with tighter monetary policies brought about credit allocations; at the same time money costs, on a world-wide basis, shot upward. In Canada the Bank Rate was raised in a number of steps to 8%, with the prime lending rate reaching 8.5%.

As a result of anti-inflationary measures, the rate of growth of the money supply has slowed

significantly since April. Having grown by 7.8% in the six months April-October 1968, the comparable figure for 1969 was only 1.1%.

Looking ahead to next year, the impact of these measures can be expected to check the growth rate of GNP in both real and current terms. GNP is expected to increase by about 1.8-2.0% in real terms. Prices are projected to increase by about 4.0% in 1970, slightly lower than this year's 4.5%. Taking this rise into consideration, GNP at current prices would show a growth rate in the order of 5-6%.

Consumer expenditure in 1969 grew at a slower rate than in 1968 and this trend can be expected to continue on into 1970. Because of this and other factors, corporate profit levels are projected to increase at about half of the 1969 rate of 10%.

As a result of tighter monetary conditions, capital spending by corporate entities in real terms should show only a moderate improvement over 1969. Residential construction has felt the greatest impact from monetary restraints.

A record level of construction in progress from 1968 and early 1969 assured a high level

of completions and expenditure for the full year. The reverse situation can be anticipated for 1970 — a slower first half and a stronger second.

A general slowing down of the economy would result in decreases in the output of manufacturing firms with a consequent effect on new employment opportunities. Some form of counteraction at government levels may mitigate this trend. Certain geographical areas will, in fact, continue to show expanding employment, but at a slower rate than has been experienced in recent years.

The process of getting inflation under control, then, is going to have relatively the same effect as is expected in other inflationary areas in the world. There will be a general "cooling off" of the economy in 1970. While there are uncertainties about growth in the coming year, the outlook for the longer term is far more encouraging. For, once inflation is brought under control, the Canadian economy can be expected to show an above average growth rate.

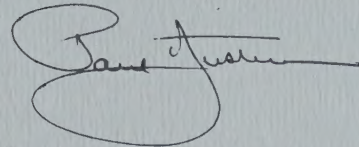
Paul H. Austin
December 10, 1969

Directors' Report to the Shareholders

The Directors take pleasure in submitting herewith the Annual Statement of the Bank's affairs for the financial year ended October 31, 1969.

During the year, Mr. R. P. MacFadden resigned as President and as a Director of the Bank. Mr. P. H. Austin, formerly Executive Vice-President and General Manager, was elected President succeeding Mr. MacFadden, and Mr. G. G. Phelps was appointed General Manager. Mr. S. C. Eyre, Senior Vice-President of First National City Bank was appointed a Director to fill the vacancy on the Board caused by Mr. MacFadden's resignation.

The Directors wish to record their deep appreciation of the many services rendered to the Bank by Mr. MacFadden during his tenure of the office of President.

A handwritten signature in dark ink, appearing to read "Paul H. Austin", with a large, stylized loop at the end.

Paul H. Austin
President

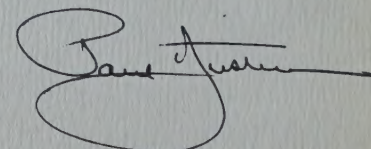
Montreal, December 10, 1969.

Statement of Assets

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Assets

Cash and due from banks	15,830,855	\$ 10,917,274
Cheques and other items in transit, net	4,721,409	3,253,752
Securities issued or guaranteed by Canada, at amortized value	12,574,742	8,559,197
Securities issued or guaranteed by provinces, at amortized value	507,316	329,922
Other securities, not exceeding market value	1,622,279	913,875
Total securities		9,802,994
Day, call and short loans to investment dealers and brokers, secured	5,216,937	2,410,925
Other loans, including mortgages, less provision for losses	141,904,523	162,134,814
Bank premises, at cost, less amounts written off	1,120,682	1,301,236
Customers' liability under acceptances, guarantees and letters of credit, as per contra	4,453,873	4,065,795
Other assets	593,423	483,183
	188,546,039	\$194,369,973



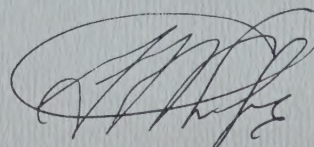
Paul H. Austin, President

Assets and Liabilities

, 1969

Liabilities

Deposits by Canada	631,330	\$ 894,846
Deposits by provinces	10,505,649	77,631
Deposits by banks	9,794,206	6,779,586
Personal savings deposits, payable after notice in Canada, in Canadian currency	8,781,507	10,528,551
Other deposits	135,318,261	156,084,562
Total deposits	164,730,953	174,365,176
Acceptances, guarantees and letters of credit	6,453,873	4,065,795
Other liabilities	5,400,393	505,877
Total liabilities	177,585,219	178,936,848
Accumulated appropriations for losses	1,451,453	2,923,758
Shareholders' equity:		
Capital:		
Authorized — 1,000,000 shares, par value \$10 each; issued and fully paid, 1,000,000 shares		10,000,000
Rest account		2,500,000
Undivided profits		9,367
Shareholders' equity		12,509,367
	188,546,039	\$194,369,73



Gordon G. Phelps, General Manager

General Manager's Report

FINANCIAL REVIEW

Notwithstanding relatively minor changes in our balance sheet footings, there was significant movement during the year from foreign currency assets to Canadian dollar assets. At October 31, 1969 the latter stood at \$174 million in comparison with \$142 million at the end of the previous year, reflecting a steady growth in financing commercial business. This, together with our efforts to promote greater internal efficiency, contributed to a substantial improvement in operating results.

The balance of revenue for the year was \$1.45 million, which was 53% higher than in 1968.

PERSONNEL

In order to ensure that the Bank may take advantage of all present and future growth opportunities, increased emphasis has been placed on organizational efficiency and stability. To achieve this objective we have reorganized our personnel division and are continuing to introduce the latest techniques of training and development, organization planning, personnel recruitment and selection, manpower planning, performance appraisal and compensation including benefit plans.

We fully recognize that the progress shown by the Bank during the past year has been largely derived from the efficiency and enthusiasm of the entire staff; we take this opportunity to

express to them our thanks and appreciation for their fine efforts and unstinted application toward improved results.

OPERATIONS AND PREMISES

During the year many improvements were made in our management information systems. This increased our ability to analyze performance in various areas thereby enabling decisions to be made which will improve our future performance. Work on automating various activities in the bank and integrating them with our information systems is proceeding according to schedule.

In February, our Vancouver Branch moved into new and attractive premises in the Board of Trade Tower at 1177 West Hastings Street. Our Satellite Branch in Halifax was moved from the Trade Mart into the new Scotia Square complex in October.

GENERAL

It is gratifying that the favourable trend evidenced in our 1968 operations accelerated in 1969 in spite of difficult market conditions. Our goals were met and we are looking forward to 1970 with confidence.

We have again established ambitious objectives for the coming years and we feel confident that they will be met.

Gordon G. Phelps
December 10, 1969

World wide banking services through fully staffed affiliated offices

The Mercantile Bank of Canada offers its customers direct access to the services of First National City Bank's branches and affiliates in 80 countries and territories throughout the world.

Canadian businessmen are invited to enquire about the advantages of these extensive services and the unique opportunities available to them through Mercantile's affiliation with Citibank.

